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C O N F I D E N T I A L SECTION 01 OF 04 KABUL 000187

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DEPT FOR SCA/FO FOR DAS GASTRIGHT, SCA/A, SCA/RA, SCA/PB,
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DEPT PASS AID/ANE
TREASURY FOR LMC DONALD, ABAUKOL, AND JCICORCIANI
NSC FOR HARRIMAN
OSD FOR KIMMITT

E.O. 12958: DECL: 01/19/2017
TAGS: [ECON](#) [PREL](#) [EAID](#) [PGOV](#) [EFIN](#) [AF](#)
SUBJECT: AFGHAN AND UN OFFICIALS COVER KEY DONOR
COORDINATION AND ECONOMIC ISSUES WITH BOUCHER

REF: 06 KABUL 5918

Classified By: A/DCM Sara Rosenberry for reasons 1.4(b) and (d).

SUMMARY

1.(C) Both Joint Coordinating and Monitoring Board Co-Chairs offered concurrence on the U.S. proposal to designate capital-level meetings of the Joint Coordination and Monitoring Board as a "Contact Group," with Nadiri stressing that he wants the group to meet no more than once a year. The Afghans welcomed the invitation that they "drive" the meeting and have taken charge of the donor project list (reftel). They will produce a revised version through the ongoing consultative group process. We will press the Afghans to distribute the list to Board members prior to Berlin. The economy is responding to the process established in London, but Nadiri cited six key impediments that need to be addressed to accelerate growth: insecurity, unemployment, corruption, narcotics, poor human resources/capacity constraints, and private sector weakness. Nadiri believes rural development is the key to addressing many, if not all, of these problems. The power and mining sectors present opportunities, but also present challenges, including poor leadership and lack of capacity. Significant work is required to ensure that Afghanistan stays consistent with International Monetary Fund budget targets, and we must improve Afghan capacity to implement the development budget. Finance Minister Ahadi is keen to fight corruption, which he characterizes as the sale of government services by government officials, and is looking for assistance to develop the ability to investigate financial crimes.

2.(C) The information in this report derives primarily from Assistant Secretary Boucher's January 9 dinner with Special Assistant to the President Nadiri, United Nations Assistance Mission in Afghanistan Deputy Special Representatives Alexander and ul-Haq, and Afghan National Development

Strategy Executive Director Farhadi. Acting DCM Rosenberry, Acting AID Director Abdou Rahmaan, Acting Econ Counselor Hicks, and SCA Senior Advisor Hayden also attended. END SUMMARY.

BERLIN JOINT COORDINATING AND MONITORING BOARD MEETING

3.(C) Boucher raised the concept of designating the Berlin political directors' meeting as the "Joint Coordinating and Mobilizing Board Contact Group." Noting that the Europeans see NATO as all about fighting, while we emphasize an integrated approach - military, governance, economic development - to combating the insurgency, Boucher advocated using the Berlin meeting to raise the profile of the Board as the focal point for coordinating the civilian effort in Afghanistan. Boucher underscored he had been impressed by the Afghan delegations' ability to drive the Regional Economic Cooperation Conferences in New Delhi and stressed that Berlin presented an opportunity for the Afghans to repeat this performance. This meeting, and future "contact group" meetings could be the forum for mobilizing resources for Afghanistan's development.

4.(C) Acknowledging the need for some senior Afghan officials to visit donor capitals to brief on accomplishments, describe the current situation, and seek additional donor contributions, Nadiri endorsed the contact group proposal. However, he stressed that Afghan capacity was already stretched to the limit and could not support additional groups and international meetings. He suggested that if Board Members wanted to establish "separate groups" to discuss Afghanistan, they could report their findings to the

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Board through their representatives in Kabul. He underscored that the Board brought all elements of the process - military and civilian - together to identify issues and coordinate actions. Nadiri appealed for additional staff to support "political-level" discussion and long-term strategic planning, citing a need for a policy planning staff similar to that in the Department of State.

5.(C) UN Assistance Mission to Afghanistan Deputy Special Representative to the Secretary General Alexander welcomed the proposal, saying such a forum would be able to hold NATO countries to account. In a separate meeting, Finance Minister Ahadi asked why Afghanistan should attend if the Germans would not pay for the Afghan delegation's travel and per diem. Boucher pushed strenuously that a strong Afghan delegation was important for emphasizing Afghan leadership and raising the profile of the Board and is worth the investment. He agreed to contact the Germans and asked the Embassy to follow up with the German Ambassador in Kabul.

6.(C) Following up on REFTEL delivery of the notional "wedding registry" list to Board Co-Chairs Nadiri and Koenigs, Boucher asked about progress towards producing a final donor project list for the Berlin Board meeting. As he had in December (REFTEL), Nadiri welcomed the concept, noting that it provided an opportunity to look at the world map and identify special talents that could be tapped to assist Afghanistan. For instance, the list could be used to approach Chile about assistance in developing a floriculture industry in Afghanistan. Nadiri stressed that the list must be presented correctly to the international community. In his view (and Alexander's), the list must appear to the international community as coming from the ongoing Consultative Group/Working Group meetings and be presented by the Government of Afghanistan. (COMMENT: The Afghans are working on the list, and we will press them to release the final version to Board members prior to the Berlin meeting. END COMMENT.)

NATIONAL DEVELOPMENT STRATEGY/MONITORING BOARD PROCESS AND THE ECONOMY

7.(C) Nadiri told Boucher that the Afghan National Development Strategy is making progress with simultaneously meeting objectives on building democracy, establishing an open economy, and bringing Afghan values to meet 21st century standards. This is being accomplished despite six critical impediments affecting economic performance - insecurity, unemployment, corruption, narcotics, weak human resources/capacity constraints, and weakness of the private sector. He noted that Afghanistan's location "in a tough neighborhood" is also a constraint. Alexander agreed with Nadiri's assessment that the Board has implemented the Strategy successfully so far and highlighted the Policy Action Group's ability to coordinate the effort in the South.

However, he stressed that the government only had five good ministries and five average ministries; the rest needed improved leadership to turn their poor performance around.

8.(C) After acknowledging Nadiri's point that the pre-conditions for the private sector are not in place and massive donor inflows are distorting the economy, Alexander commented that private sector activity is picking up. Import substitution, he said, is emerging. Nadiri listed three key ingredients to stimulate more private sector activity: land titling, infrastructure development, and subsidies. Farhadi complained that the World Bank and International Monetary Fund opposed agriculture subsidies as a tool to fight narcotics production. Nadiri added that Afghanistan's rural economy needs transformation from medieval subsistence

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farming to modern commercial agriculture. The government owns huge tracts of land that need to be brought into production, and ways must be found to bring water to the land and use it more efficiently, he said.

POWER

9.(C) Both Nadiri and Farhadi expressed skepticism that Afghanistan could rely on its neighbors to supply electricity. Farhadi labeled the Uzbeks as unreliable. Boucher suggested that accessing multiple suppliers should reduce the risk and provide competition. With respect to developing domestic power production, Abdou Rahmaan commented that USAID Contractors Louis Berger/Black&Veatch had just released a new Request For Proposal for a gas certification contract in Sheberghan. He expressed confidence that the gas was there. Alexander stressed the need to empower the private sector and agreed that the 40 percent royalty rate is much too high for an economy of this level of development. He and ul-Haq stressed the weakness of the Ministry of Mines and its need for reform and technical assistance.

BUDGET AND REVENUE

10.(C) Abdou Rahmaan commented that salaries are escalating, putting pressure on the recurrent budget. Ul-Haq noted that the Afghan Reconstruction Trust Fund held about \$270 million for recurrent expenses for the coming year. Hicks stressed that increasing revenue collection must be a priority to alleviate Afghanistan's budget sustainability problems and added that customs revenues are not increasing as expected. He noted that the Minister of Finance has not been willing to push new tax legislation forward against parliamentary opposition. Nadiri countered that to generate more revenue, Afghanistan needed new investment. Separately, Ahadi claimed that Afghanistan is meeting its International Monetary Fund targets, but they are being raised above previously set levels. He admitted that customs revenue is falling, but blamed new tariff rates and the new ban on car and truck imports over 10 and 15 years of age. He related that the traffic police also banned the importation of used Japanese vehicles converted from right-hand to left-hand drive. Finally, Ahadi admitted that there has been an increase in smuggling since introduction of the new tariff.

11.(C) Responding to Boucher's question, Ahadi said that the

Border Management Initiative is moving slowly, despite signing a Memorandum of Understanding with the Interior Ministry a year ago. Serious discussion is needed, he said, especially since the Border Police is part of the problem. Instead of helping channel goods to the customs post, they are reportedly diverting traffic away from it, he added.

12.(C) Ahadi complained that he is being hit by unexpected expenditures driven by the growing size of the army and police force. For instance, the ministry has suddenly been asked to find an additional USD 50 million for fuel for the army and police. The United States, he continued provides 45-47 percent of all donor assistance to Afghanistan, an average of USD 2.5 billion per year. However, only USD 100 million of this is provided to the Trust Fund to be used to cover recurrent costs. If you doubled this contribution, he said, we could cope with these unexpected problems. Boucher noted that work has begun to better anticipate and budget for future recurrent expenses associated with force increases and military equipment purchases.

13.(C) On development budget execution, Farhadi reiterated Afghan complaints about having to cope with each donor's specific procurement processes. The government has minimal

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capacity to cope with these different requirements. Still, Ahadi said that he expected to double last year's performance, disbursing between USD 750-800 million of donor contributions. Based on amounts contracted, he expected to implement over 65 percent of the development budget this year. Moreover, he noted that many projects' completion may be delayed only slightly to the beginning of next year. Ahadi stressed that including large amounts in the development budget put pressure on the line ministries to perform. He pressed for the USG to channel more money through the national development budget. Boucher noted that Congress is very strict; we cannot start something that cannot be finished. He stressed that the smaller donors are better off contributing to the Trust Fund because they do not have the organizational abilities to implement.

CORRUPTION

14.(C) Nadiri noted that most Afghans view land as the only real asset and source of wealth, so the first act by powerful men is to seize land. To Ahadi, the problem is government officials selling government services for private gain. Ahadi expressed eagerness to fight corruption and the "culture of impunity." Asserting that if the government could capture 10-20 people and punish them severely, corruption would decline, he asked for resources to conduct "sting operations" to catch people in the act. Boucher said that we are working with the Italian Treasury Police to help the Interior Ministry fight fiscal crime. He suggested that Ahadi contact Transparency International; it could be a resource in the effort to fight corruption. Boucher also noted that some countries have established a separate, independent anti-corruption agency so that no one in government could be immune to investigation and possible prosecution on corruption charges.

15.(U) SCA Senior Advisor Caitlin Hayden cleared this cable.

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